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Governor's Budget Address
Achieving Prosperity Through Affordability
Tuesday, January 22, 2008

Mr. President, Madam Speaker, members of the General Assembly, my fellow Vermonters:

Five years ago – as I stood at this podium to deliver my first budget address – Vermont was mired near the bottom of a global economic slowdown. Our economy had stalled, our government had overpromised and Vermonters were demanding a change from business as usual.

Together, we took immediate action to spur job creation, focus on affordability, resist tax increases and restrain spending. We made hard decisions with compassion, protecting those at risk and helping others with a hand-up. We emerged from that slump a stronger state – with more Vermonters working than ever before, with poverty down, with health care for more families and with opportunities for our people more bountiful than ever.

Today, as I stand before you again, Vermonters are uneasy about the economic uncertainty rippling across our nation. There is a growing anxiety that high fuel prices, increasing dependence on foreign investment and deep swings in the stock market will impact our families and communities.

Although this current volatility is caused by national ailments far removed from the Green Mountains, we are not immune to its effects. But because of smart choices we made over the last five years, Vermont is better positioned than most states to weather this storm and break through stronger still.

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Yet we cannot rest on past achievement. Indeed, we must act boldly this session to stay ahead of the developing national downturn. Government alone does not make or break the economy, but the steps it takes can be the difference between riding out a patch of choppy seas and taking on water.

Until we get around this period of economic uncertainty, we will be required to make some very difficult choices among many important priorities. Some programs will be put on hold, others

will be reshaped, and everyone will be asked to share in the sacrifice. Expanding the size and scope of government would be a mistake, as would raising taxes on already struggling families.

Achieving real results in a tight budget requires us to rethink how we deploy taxpayer dollars – evaluate every program, every service and every investment – to ensure maximum effectiveness and efficiency. We must revitalize what works well and reform what can work better. We can achieve prosperity through affordability if we make the best use of our limited resources and invest every taxpayer dollar as if we earned it by our own labor.

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In my first budget message, I laid out five principles. I remain dedicated to those values and they are at the core of the budget I present today.

First, government must live within its means because every dollar we spend beyond our capacity to pay is a dollar that must be repaid by our children.

Second, government will fulfill its commitment to the neediest Vermonters because a society is judged by how it treats the most vulnerable.

Third, we must not dip even further into the pockets of struggling taxpayers.

Fourth, sacrifice must be shared broadly so that no one is asked to carry an undue burden.

Finally, the most direct route to prosperity is to invest in Vermonters—in their education, skills and aspirations.

Today, I present to you a balanced fiscal year 2009 budget of \$4.3 billion in state and federal funds. My budget meets these key criteria: it protects seniors, children and needy families; it invests in immediate job creation initiatives; it jumpstarts health care reform and upgrades to our telecommunications network; it provides access to affordable homes and much needed tax relief; and it positions Vermont to build a stronger, more innovative and more resilient economy for the long term.

There are six major increases in this budget totaling \$64 million that consume virtually all available revenue growth. They include: more than \$34 million to support Medicaid and Catamount Health; almost \$11 million transferred to the Education Fund and over \$6 million for homeowner rebates, both to help ease the property tax burden; nearly \$7 million to the Department of Corrections for increasing pressures; and over \$5 million to the Department for Children and Families for basic social services.

After these necessary expenditures are accounted for, there is almost no room for spending increases – underscoring the challenge ahead. The investments we make in other areas of state government are funded through choosing among competing priorities, strategically using federal resources and finding efficiencies in programs and administrative overhead.

Building a budget is more than making the rows and columns add up, it is crafting a statement of priorities. This statement carries a greater weight when resources are tight and we are faced with tough choices. As we make these decisions we will be judged not only by our progress in moving Vermont forward economically, but how we protect the neediest among us. They are the most at risk in challenging times and they must not be forgotten.

For them, and for every Vermonter, access to affordable health care is critical. I propose adding more than \$27 million in state funds to bolster Vermont's Medicaid programs. This new money will prevent a Medicaid deficit and keep us from having to reduce the number of those enrolled in these important programs.

The largest components of this transfer include \$14.5 million from the General Fund, \$4.6 million of one-time funds from the Vermont Housing and Conservation Board and a little over \$8 million from Tobacco Funds.

Medicaid is a good illustration of the hard, but necessary, decisions we face all across state government. We will protect the base appropriation for tobacco cessation programs and allow already approved housing and conservation projects to proceed – but we must use some of these precious state funds to save Medicaid for the most vulnerable. In these challenging times, this is a better investment of our limited resources.

To augment this large infusion of General and Tobacco Fund monies into Medicaid, I am asking participants to contribute a modest amount toward saving this program through targeted changes in premiums and co-pays. These added contributions are a trade-off: we want to keep the program available to every Vermonter who needs assistance, so we must ask everyone to do his or her part to keep it affordable.

Health care costs remain one of the greatest barriers to the prosperity of our families and every investment we make in prevention improves lives and reduces health care costs over the long term.

Although Vermont has been a national leader in health care, Washington has failed to follow. The federal government has refused to be our partner in covering those with incomes between 200 and 300 percent of the federal poverty level. But Vermont will not shrink from its responsibility. I ask this General Assembly to approve \$7.5 million in state funds to help those Vermonters the federal system has left behind.

We must also continue our work to ensure every person with a chronic condition receives the right care at the right time through the Vermont Blueprint for Health. With no new additional funds, but building on the progress we have made, my Blueprint budget has been revitalized to support several new initiatives to improve health care quality and ultimately contain costs. It provides funding for small primary care practices to install electronic health information

systems. My goal is to have every doctor in Vermont using one of these systems by the end of 2010 – a perfect complement to our e-State Initiative.

My budget also funds prevention specialists for each district health office to focus on obesity – a major contributor to disease and health care costs – as well as an additional \$300,000 investment in community-based prevention programs.

The Agency of Human Services is our largest state agency, tasked with handling Vermont's most complex and sensitive issues. To ensure that our investments achieve the best outcomes, I have asked it to rethink how services are delivered. For example, Vermont spends close to \$100 million on services for children with disabilities, spread out across five departments. By more completely integrating these efforts, we can provide more service for the same amount of money and, most importantly, improve outcomes for our children.

Our innovative approach to problem solving has allowed us to not only sustain valuable services, but also infuse additional dollars into key programs that protect the most vulnerable. We will continue to provide, for instance, the most generous low-income home heating assistance benefit in the nation. No Vermont family should be cold this winter.

I also recommend significant funding increases: for services to people with developmental disabilities; for seniors in my *Choices for Care* program that provides them the option of remaining home as they age; for adult and child mental health services; for people with traumatic brain injury; for providers of children's residential services; and to assist foster children transitioning to adulthood and successful participation in our economy.

Finally, I am encouraged that my Administration and the Legislature are in general agreement on the best way to replace the Vermont State Hospital. My budget includes funds for future facility planning and additional improvements to the existing hospital.

Our human services provide an important safety net when people need it most. The very best investment we can make, however, is the one that reduces demand for these services, grows our economy, creates good jobs and helps to make Vermont more affordable and families more prosperous. The expenditures I propose in these areas were challenging to find this year, but are indeed necessary to make Vermont more competitive and prosperous in the global marketplace.

In the 21st Century economy, access to a cutting edge telecommunications system is the difference between moving forward and falling behind, and our e-State Initiative has positioned us to succeed. To build on the quarter-million dollar investment in software and e-communities grants I have recommended, I propose \$400,000 for the Vermont Telecommunications Authority to further our goal of universal cellular and wireless coverage in Vermont by the end of 2010.

Higher education must remain a centerpiece of our economy, helping to produce the next generation of innovative ideas and industries, as well as knowledgeable, motivated employees who inspire them. That is why my budget provides \$8 million for Next Generation workforce training programs and college scholarships.

Of that, \$3.4 million is invested in helping Vermont's workers move to better paying jobs, including \$1.4 million for skills training for those who are unemployed or underemployed and \$1 million to train and educate young, out-of-school Vermonters. I also propose \$700,000 to help local businesses retrain employees and \$300,000 for the University of Vermont to acquire patents and commercialize technology that will create jobs.

The remaining \$4.6 million in Next Generation money should be used to put scholarships and grants directly into the hands of as many students as possible.

I recommend \$500,000 for loan repayments for nurses and other health care professionals; \$700,000 to the Vermont Student Assistance Corporation for grants to Vermonters taking part in post-secondary training programs; and \$400,000 in scholarships for gifted high school students enrolled in courses at a state college.

I propose that the final \$3 million be allocated for student scholarships and split evenly among the University of Vermont, Vermont State Colleges, and VSAC. In honor of the life and achievement of the member from Lyndon, I think it would be a perfect tribute if the \$1 million in scholarship money for the Vermont State Colleges is dedicated as the *Cola H. Hudson Memorial Scholarship*.

In addition, even in these tight budget times, I am recommending a 2.5 percent increase for UVM, the State Colleges and VSAC. The capital bill includes an additional \$1.6 million for both UVM and the State Colleges. And working with the State Treasurer, I propose the state extend an amount of its moral obligation pledge to future borrowings by UVM and the State Colleges on projects related to deferred maintenance. This could result in lower borrowing costs for both institutions.

To further recruit and retain skilled, working-age Vermonters – and to help reverse our population trends – we must reach out to those who love Vermont, but currently reside elsewhere, and encourage their return and participation in our economy and our communities. That is why I propose we invest in PursueVT, a program that reaches out to those who left Vermont and connects them with the opportunities they need – like a good job and an affordable home – to return to the state to work and raise a family.

To foster job creation and entrepreneurship in environmental technology, and to further efforts to address climate change, I propose we modify the Vermont Employment Growth Incentive program to make “green economy” companies eligible for significantly larger incentives to create jobs here. I also propose the State retirement boards designate a percentage of their funds for investment in the creation of green jobs, a move that could generate up to \$10 million in additional capital for job creation.

These are all important steps, but putting homeownership within reach of our families and encouraging the immediate construction of new homes is one of the most substantial steps we can take this year to create jobs and stimulate economic growth.

My New Neighborhoods initiative spurs the construction of affordable homes and can help communities hold down property taxes. Land designated for “New Neighborhoods” would yield the same tax revenue it currently provides, but communities would get to keep 75 percent of the new incremental education tax from improvements on the land – that is, new homes – and the state Education Fund would accrue the remaining 25 percent. After three years, all the revenue generated – from both the land and the improvement – would flow to the Education Fund. This is a win for the communities as it promotes responsible, smart growth and a win for taxpayers as it helps hold down property taxes.

My Urban Homestead proposal is an innovative approach to converting upper floors in downtown buildings into housing. The program will draw homeowners into our village centers and revitalize main streets. Our research shows \$280,000 of incentives can leverage as much as \$5 million in private investment.

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We must also reduce the tax burden that prevents many Vermonters from owning a home and threatens to force some out of homes they have owned for years. That is why I have proposed a responsible way to leverage our lottery that can make it more valuable, help us invest in school modernization and provide millions of dollars in relief to beleaguered property taxpayers.

As I outlined in my State of the State message, leasing the lottery will provide the state with a one-time \$50 million payment, as well as a guaranteed annual payment of \$23 million and a percentage of annual profits.

I recommend using the one-time \$50 million payment on one-time expenditures. The first \$25 million should be invested in school construction. This expenditure brings my total capital appropriation recommendation to more than \$79 million, including support for the Health and Forensics Laboratories, the Bennington state office building, upgrades underway at the Vermont Veterans Home, and other necessary projects.

The remaining \$25 million in lottery proceeds should be used to give Vermonters immediate property tax relief. This provides a one-time bridge between this year’s rising property tax bills and next year when Act 82 – our “think twice” property tax containment plan – takes effect.

If the Legislature does nothing, residential property taxes will rise by over seven percent and non-residential taxes will increase by almost 10 percent in the coming year. In my view, doing nothing is not an option.

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As the cost of home heating fuel continues to increase, ensuring homes are energy efficient plays a role in making them affordable.

To that end, I recommend \$1.6 million for an Energy Efficiency Investment Program to establish an innovative public-private partnership that over the next four years can invest \$20 million in energy efficiency efforts in homes and small businesses – without raising taxes. These resources would be combined with the approximately \$8 million of weatherization grants I have once again funded.

Currently, a household with an annual income up to \$42,829 is eligible for existing weatherization grants – and the program is producing results. One Vermonter recently wrote me to say, “The work done through (the weatherization) program has really helped to keep my home comfortable and my energy costs down.” She continued, “My monthly winter electricity bill is down around \$60 or more. My fuel oil usage seems to be down by about 25% as well—possibly more.... This program has made a big difference to me and my family. I’m a single working Mom and this kind of help is extraordinary.”

Coupling the proven results of the weatherization program with energy audits and no or low interest loans for middle income households establishes a comprehensive, financially sustainable approach to helping working Vermonters reduce their fuel bills. The money saved in the first few years would easily repay the loans and all the savings after that is money back in the pocket of the home or small business owner.

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Last year, we made substantial investments in our agricultural economy and worked together to help farmers overcome low milk prices, high energy costs and wet weather. This year, Mother Nature and milk markets have cooperated with local farmers – a welcome blessing. While we cannot control the weather, we must take steps now to help farmers prepare for the next downturn. My budget funds farm sustainability programs like Buy Local, Farm to School and the Vermont Seal of Quality and I have included \$300,000 for additional renewable energy grants to help farmers become energy independent.

Another program important to both farmers and the environment is our Clean and Clear Action Plan, a partnership among the Agency of Natural Resources, the Agency of Agriculture, Food and Markets and private stakeholders. Clean and Clear is providing strong on-going efforts to reduce non-point source phosphorus pollution in Vermont’s waterways. The proposed funding for fiscal year 2009 includes over \$9 million in state funds and capital investments to support this important work.

Last year, I presented my *Road to Affordability* plan to focus transportation priorities on the preservation and safety of existing roads, bridges and culverts. I am grateful that the Legislature supported this approach and we have already made progress on the pressing transportation needs

of our state. Investment in maintenance pays dividends for years to come; a dollar we spend today on the repair or rehabilitation of a bridge or culvert can save as much as ten dollars for a full replacement. It is an approach that just makes sense.

This budget reflects my commitment to a limited number of major projects including the Bennington Bypass, Circumferential Highway, Morrisville Bypass and the Brandon-Pittsford Route 7 reconstruction. Setting realistic timetables for these and other large roadway projects will allow funding a 47 percent, \$7.6 million increase for maintenance activities including culvert and bridge work, ditching, and ledge and slope repairs. This constitutes a 160 percent funding increase in these critical areas since fiscal year 2007.

I also propose to reduce the raid on the transportation fund by an additional \$1.1 million. I am pleased to report that since I first came to office we have reduced by \$8 million the diversion of transportation funding to non-transportation related programs, and I remain committed to further reductions in future budget years. My budget also includes the use of more than \$4.6 million in bonding authority to help address transportation needs.

With gasoline over \$3.00 per gallon, we cannot ask Vermonters to pay a higher gas tax for roads and bridges. Instead, we must ensure that we are spending the entire \$424 million annual transportation budget as effectively as possible. VTTrans is taking steps to deliver projects on time and on budget, cut administrative costs, and save millions by curtailing unnecessary project amenities. We will use the money saved by these efforts to reinvest in bridge, culvert and paving projects.

Keeping communities safe will continue to be a top priority and I propose we add \$2.8 million to the public safety budget. I have asked that a portion of this money be used to sustain drug enforcement efforts required to reduce drug-related violent crime, and I propose to provide an additional \$150,000 to programs to prevent domestic and sexual violence.

I also recommend increasing funding for the DETER program by \$600,000. A quarter-million dollars of this appropriation will fund opiate treatment; another quarter-million will support three sites that integrate substance abuse and mental health services; \$50,000 will fund our 10th recovery center; and \$50,000 will allow us to open a new adolescent treatment site. Since launching DETER in 2003, we have invested nearly \$28 million to combat substance abuse in our state.

The cost of running Vermont's corrections system has been growing at double digits over the past decade. In the last several years, we have taken steps to address increasing demands and reduce costs through a series of reforms, including the Incarcerated Women's Initiative, expansion of transitional housing and residential drug treatment, and piloted use of electronic monitoring. As a result, the fiscal year 2009 corrections budget increase will be less than in previous years.

Despite this progress, and the predicted slowing of Vermont's prison population growth rate, we must expand our efforts. If unaddressed, corrections spending will continue to place an unsustainable burden on our budgets and divert resources from other valuable programs.

Currently, all three branches of state government are rethinking policies and evaluating options to reduce these expenses in a way that protects community safety while freeing up resources for promising initiatives. I want to commend the Senior Senator from Bennington County and other legislators for offering thoughtful and innovative approaches to addressing the budget challenges in corrections. It is never easy being first out of the blocks with an idea, but their proposals are precisely the kind of new thinking Vermont needs as we strive to maximize state resources.

As we begin to shape a budget for the next fiscal year, the economic uncertainty facing our nation gives us little margin for error. There are no easy answers.

We are required to innovate government services, and make tough choices among a multitude of good programs. We must prioritize today's needs with compassion and pass initiatives that will strengthen Vermont's economy today and for future generations. This budget does just that.

Five years ago, because we acted quickly and worked together, Vermont not only weathered the economic slowdown, but also emerged from it stronger and more prosperous. Today, I offer a budget that sets a clear course through today's unrest. Many of the decisions we make will be difficult, but our state will emerge stronger than ever.

Crafting a budget that is compassionate and balanced requires a partnership among officials that puts progress first—we're all in this together. By keeping an eye on the future and the bottom line, our budget can protect the most vulnerable, invest in immediate economic growth and ensure the prosperity and peace of mind of future generations.

Thank you, and may God bless the great state of Vermont.

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